Compensation report

The employees of the Sonova Group help people to hear the world, thereby changing lives. For Sonova our people are essential: to succeed in the market and deliver the best products and services, we need to be a strong team working together with, and for, our customers and shareholders. This is why we strive to attract, retain and develop skilled, dedicated, and ambitious colleagues who continuously improve and grow the company for all our stakeholders.

This compensation report describes Sonova's compensation principles, system, and key components, as well as the method of determining the compensation of members of the Board of Directors and the Management Board. It also explains the roles, responsibilities, and governance procedures involved in the design, approval, and implementation of compensation plans. Furthermore, it provides information on the organization of the Board of Directors. More information on topics such as Board composition, independence, diversity, competence, evaluation, and risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

The compensation report provides the context for the shareholder votes on the compensation of the Board of Directors and the Management Board, submitted for approval at the 2021 Annual General Shareholders' Meeting (AGM). This report includes COVID-19 related measures on their compensation.

It has the following structure:

1. Introduction by the Chair of the Nomination and Compensation Committee
2. Compensation policy and principles
3. Compensation governance
4. Compensation components and system
5. Compensation for the financial year
6. Share ownership information

For ease of reference, abbreviations are also summarized in a glossary at the end of this report.

1. Introduction by the Chair of the Nomination and Compensation Committee

Dear Shareholders,

The exceptional circumstances surrounding the COVID-19 pandemic affected Sonova from the end of our 2019/20 financial year and throughout the 2020/21 financial year, particularly in the first quarter. The Nomination and Compensation Committee (NCC) therefore dedicated substantial time to the business in this context and held two meetings in addition to the regular four annual sessions.

COVID-19 related short-term compensation measures

In addition to covering regular agenda items, the Board of Directors and Management Board have reviewed the impact of COVID-19 and taken coordinated measures for Sonova to adapt to the rapidly changing situation, care for its people, preserve Sonova's competitiveness, maintain liquidity, and be best positioned for market recovery once conditions improve.

As described in this report, our compensation system is linked to the company's strategy and business results, and aligns with the interests of our shareholders by rewarding performance in the context of the business and the market. While our compensation system has proven very effective over many years, specific short-term adjustments, also outlined in last year's report, were made to ensure continued alignment during the COVID-19 related crisis.

These specific short-term adjustments to the compensation system are described in this letter and throughout the following pages. This compensation report also explains how we in the NCC met our objectives and carried out our responsibilities in the financial year. All efforts of our employees, the Management Board, and the Board of Directors during the financial year have continued to focus on achieving our ambitious targets.

Among other adjustments, the compensation related cost measures included postponing compensation increases to the next year where feasible, putting employees in some of our locations on furlough, introducing short-term work and similar arrangements. The following short-term measures related to the compensation of the Board of Directors and Management Board have been implemented:

- The Chair of the Board of Directors waived his cash retainer (net of social security contributions for the portion delivered in restricted shares) from April 2020 until the 2021 AGM.
- The other members of the Board of Directors waived 20% of their cash retainer and committee fees for the term of office from the 2020 AGM until the 2021 AGM.
- For the Management Board, no salary increases were applied during the 2020/21 financial year.
- The CEO waived 50% of his monthly base salary and each of the other Management Board members 20% of their monthly base salary from April 2020 until September 2020, when revenue and profitability recovered to levels similar to those of the previous year.
- The Management Board also decided to defer 50% of the Variable Cash Compensation (VCC) payout for the 2019/20 financial year; this then occurred in October 2020, when revenue and profitability returned to levels similar to those of the previous year.

- Given the need to adapt to an uncertain and rapidly changing economic situation, more dynamic rolling VCC targets were set for the 2020/21 financial year and firmly governed as circumstances continued to change.
- It was also decided that the maximum VCC payout for Management Board members during the 2020/21 financial year should be capped at 100% (versus 200% normally). Even though management could outperform the financial objectives for the year, the cap at 100% was enforced.
- The COVID-19 pandemic caused the market to shrink temporarily, thereby impairing Sonova's growth strategy during an interim period. To reflect this, the performance period of the CEO's one-time performance option award (to replace lost compensation at the former employer) has been extended, as outlined later in this report.
- As already outlined in last years' compensation report, the Board of Directors anticipated the possible need to suspend, for the time being, the ROCE performance hurdle for options under the Executive Equity Award Plan (EEAP). However, given the strong management of profitability, along with the efficiency of employed capital during the COVID-19 crisis, the Board decided to not apply this suspension.

These measures were largely already outlined in the 2019/20 compensation report.

2020/21 and 2021/22 regular compensation

Even during the normal course of business, we continuously review our compensation framework, making adaptations when and if deemed appropriate, taking into consideration our ongoing dialogue with our shareholders and with proxy advisors, and reflecting our business strategy as well as relevant market trends and best practice. This review is to ensure that our compensation framework is attractive, effective in achieving what we need, and sustainable. Transparency is key for us and we continuously work on improving clarity of disclosure.

To reflect Sonova's corporate social responsibility and sustainable business approach, relevant environmental, social, and governance (ESG) targets have been more formally reflected in the VCC from the second half of the 2020/21 financial year.

The NCC continued to perform its regular activities throughout the year, including succession planning for positions on the Board of Directors and the Management Board, rolling performance target setting and performance assessment, determination of compensation for members of the Management Board, and preparation of the compensation report and of the say-on-pay votes at the AGM.

We pursue a considered course in compensation adjustments for our Management Board, making changes only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization and would usually only differ in cases such as, for example, a change to a position's responsibilities. For the Management Board, as outlined above, no salary increases were applied during the 2020/21 financial year and such changes, if any, for the 2021/22 financial year will again be in line with those across the organization.

After the 2021 AGM, compensation of the Board of Directors will return to the levels established before the pandemic.

Changes in the Board of Directors and Management Board

As announced on February 11, 2021 and outlined in the corporate governance report, Beat Hess, Vice Chair and NCC member, will not stand for re-election as he has reached Sonova's age limit for Board membership. In addition, Michael Jacobi will not stand for re-election, having served as a member of the Board of Directors since 2003 and as Chair of the Audit Committee from 2004 to 2019. All other current members will stand for re-election to the Board of Directors at the 2021 AGM. Gregory Behar and Roland Diggelmann are proposed for election to the Board of Directors at the 2021 AGM.

The Board of Directors had several sessions focusing on its succession planning. It used an assessment matrix considering the breadth and depth of competencies and experience required by Sonova to support our business and its strategies. To ensure a balanced overall board composition and long-term planning, these criteria include, among others, executive management experience and acumen, international experience, expertise in the areas of finance, M&A and human resources, industry affinity, as well as diversity in terms of background, industry, functional knowledge, nationalities, gender, and age.

The two new members of the Board of Directors proposed for election at the 2021 AGM have an outstanding executive track record in successfully leading sizeable businesses as CEOs. They bring extensive international experience and have knowledge which is very relevant to Sonova's business. Furthermore, they will significantly rejuvenate the Board of Directors.

In light of these changes, and if elected/reelected at the AGM 2021, the Board of Directors will:

- Appoint Stacy Enxing Seng as Vice Chair of the Board of Directors
- Appoint Adrian Widmer as Chair of the Audit Committee
- Appoint Lukas Braunschweiler as Chair of the NCC, taking over from Robert Spoerry, with the objective to separate the role of the Chair of the Board from the Chair of the NCC
- Appoint Roland Diggelmann as a member of the NCC

As part of our ESG strategy, we strongly believe that a more balanced gender representation on the Board of Directors is in the best interests of the Sonova Group, and we are committed to achieving a 30% proportion of women on the Board well before the time this becomes a legal requirement in 2026.

As announced on February 11, 2021 and outlined in the corporate governance report, Birgit Conix will succeed Hartwig Grevener as Sonova's Chief Financial Officer (CFO) as of June 2021. This will be reflected in next year's compensation report.

2021 AGM

As outlined in this compensation report, the total compensation awarded to the members of the Board of Directors for this term of office is well within the limit approved by the 2020 AGM, due in part to the temporary compensation reduction outlined above. The compensation awarded to the members of the Management Board is also within the limit approved by the 2019 AGM, again in part due to the temporary compensation reduction as well as the cap enforced on the VCC.

At the 2021 AGM, you will have the opportunity to express your opinion on our compensation principles and system by way of a consultative vote on this compensation report. We will also ask for your approval of the maximum aggregate compensation amounts for the Board of Directors for the next term of office and for the Management Board for the 2022/23 financial year.

No changes to the compensation system of the Board of Directors and the Management Board are foreseen, other than those outlined in this compensation report. The specific short-term adjustments made to compensation to ensure strong shareholder alignment during the COVID-19 related crisis are lifted from the 2021 AGM and 2021/2022 financial year respectively.

On behalf of the Board of Directors, I would like to thank you for your continued support. We hope that you find this report informative, and we remain confident that our compensation system rewards for performance in a balanced and sustainable manner, that aligns well with our shareholders' interests. We look forward to our continued dialogue.

Yours sincerely,

R. Spoerry

Robert Spoerry
Chair of the Nomination and
Compensation Committee

2. Compensation policy and principles

Sonova's objective is to engage the best talent needed to ensure our success and maintain our position as the world's leading manufacturer and provider of innovative hearing care solutions and services. To support this objective, our compensation system is based on the following principles:

Sonova's compensation principles

Pay for performance

Compensation rewards best-in-class performance. A large portion of compensation depends on the company's performance and individual contributions. We recognize both short-term success and long-term value creation through a well-balanced combination of incentive plans.

Market competitiveness

To be able to attract, motivate, and retain talented executives and employees, compensation is periodically benchmarked and is in line with competitive market practice.

Alignment with shareholders' interests

A substantial portion of the compensation of the Board of Directors and the Management Board is delivered in company equity. We also have share ownership guidelines to foster the long-term commitment and alignment of their interests with those of our shareholders.

Alignment with company's values

Compensation incentivizes behaviour that is in line with our high standards of integrity and our values: we care, we drive innovation, we strive for excellence, we take accountability and we build the best team. ESG considerations are now more formally integrated in the compensation of the Management Board.

The compensation of the Board of Directors consists of fixed compensation only, paid partly in cash and partly in the form of restricted shares. The independence of the Board of Directors in its supervisory function is reinforced by the practice that no performance-related compensation is awarded.

The compensation of the Management Board consists of fixed and variable, performance-based, compensation components. The base salary and benefits form the fixed components and are determined based on current market practice. Performance targets for the short-term are normally defined at the beginning of each financial year and assessed at the end.

To avoid compensation for inappropriate risk taking or short-term profit maximization at the expense of the long-term health of the company, a cap applies to both the short-term and the long-term variable compensation component and claw-back provisions are applicable to the VCC.

Sonova has mandatory share ownership guidelines in place for members of the Board of Directors and the Management Board. These guidelines require members to invest defined amounts in Sonova shares and thus reinforce the alignment of the interests of the Board of Directors and the Management Board with those of our shareholders.

3. Compensation governance

3.1 Board of Directors composition, competence and independence

Board of Directors composition

As determined in Art. 1 of the Organizational Regulations and in Art. 1 of the Rules on Board Operations and Procedures, the Board of Directors plans the succession of its members and defines the criteria for selecting candidates so that the composition is well-balanced in terms of size, professional skills, international experience, and diversity. Sonova ensures that newly elected members receive appropriate introduction and orientation and that the members of the Board of Directors receive ongoing training with respect to their responsibilities.

The current composition of the Board of Directors represents a good mix of competencies, age, and diversity. The average age is 62 years and the average length of service is 9 years. As a general rule, the Board of Directors shall not nominate for re-election a candidate for the Board of Directors who has completed his or her 70th year of age, although in justified individual cases the Board of Directors can make an exception.

Board of Directors competence

The Board of Directors competence process evaluates each member of the Board of Directors against a set of pre-defined competencies and skills. The competencies relate to specific requirements which are relevant for Sonova and are compiled in the Board of Directors competence matrix. More information on the Board of Directors' competences can be found in the corporate governance report.

Board of Directors independence

Members of the Board of Directors are considered to be independent according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally (or in association with related persons) have not been a member of the Management Board during the last three years, and have no or only comparatively minor business relations with the company. According to these rules all members are considered independent.

Given the overall balance in Sonova's Board of Directors in terms of professional skills and expertise, background, international experience, length of service, and general diversity, and as all members are considered to be independent, the Board of Directors remains confident that it is well-positioned and experienced in ensuring that its members, as part of this governing body, exercise independent control and supervision.

Fees for members of the Board of Directors are structured to be consistent with the principle of independence; members therefore only receive fixed fees paid in the form of a cash retainer and non-discounted shares with a blocking period of five years and four months (Chair of the Board of Directors) or four years and four months (all other members of the Board of Directors). The allocation of shares strengthens alignment with shareholders' interests.

In addition, members of the Board of Directors receive committee retainers for their services on Sonova's committees. Members of the Board of Directors do not receive performance-related compensation, severance payments, or benefits.

3.2 Nomination and Compensation Committee

As determined in the Articles of Association, the Organizational Regulations, and the NCC Charter of Sonova Holding AG, the NCC supports the Board of Directors in the fulfilment of its duties and responsibilities in the area of compensation and personnel related matters. Its tasks and responsibilities include, among others:

- Periodical review of Sonova's compensation principles
- Periodical benchmark reviews covering compensation of the members of the Board of Directors (including the Chair of the Board of Directors), the CEO, and the other members of the Management Board
- A yearly review of the individual compensation of the CEO and of the other members of the Management Board, including the VCC and the EEAP
- Review, amendment, and approval of the performance appraisal of the members of the Management Board (prepared by the CEO) and of the CEO (prepared by the Chair of the Board of Directors)
- Preparation of the compensation report
- Succession planning
- Selection and nomination of candidates for the role of the CEO, for membership of the Management Board as proposed by the CEO, as well as pre-selection of suitable candidates for the Board of Directors; and
- Periodical review of the employment terms and policies.

Approval and authority levels on compensation matters:

Decision on	CEO	NCC	Board of Directors	AGM
Compensation principles and system for the Board of Directors and the Management Board		proposes	approves	
Maximum aggregate amount of compensation for the Board of Directors and the Management Board to be submitted to shareholders' vote		proposes	reviews and proposes to AGM	binding vote
Individual compensation, including cash components and shares, to be granted to the members of the Board of Directors[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the CEO[1]		proposes	approves	
Employment terms of the CEO[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the Management Board (excluding CEO)[1]	recommends	proposes	approves	
Annual total amount of long-term equity incentives to be granted to all other eligible employees	recommends	proposes	approves	
Compensation report		proposes	approves	consultative vote

1) Within the framework of the Articles of Association and the maximum aggregate amount of compensation approved by the AGM.

The NCC consists exclusively of independent and non-executive members of the Board of Directors, who are elected individually and annually by the AGM. For the period under review, the NCC consisted of Robert F. Spoerry (Chair of the Board of Directors), Stacy Enxing Seng, and Beat Hess.

The NCC meets as often as business requires but at least three times per year. In the 2020/21 financial year, it held six meetings covering, among others, the following pre-defined recurring agenda items during the course of the regular meetings:

Item	May Beginning of the financial year	September	November	February End of the financial year
Compensation policy & process			– Preview of compensation proposal for the following financial year (incl. MB) – Approval of EEAP grant size (incl. MB) and plan regulations – Review of equal pay considerations	– Reconfirmation of compensation proposal for the following financial year – Reconfirmation of EEAP target group for the following financial year
Management Board (MB) matters	– Approval of actual vesting of EEAP and payout of VCC for CEO and MB for the previous financial year – Setting of VCC and EEAP performance targets for the new financial year – Approval of individual targets for CEO and MB	– Approval of ESG criteria for MB VCC for the next financial year	– Review of Sonova's succession planning at MB level as covered in the full BoD	– Equity valuation (options and Performance Share Units/PSU) – Target compensation (incl. EEAP grant) review for the following financial year
Governance	– AGM preparation – Approval of the corporate governance and the compensation report as well as the compensation part of the AGM invitation – Proposal of the maximum aggregate amount of compensation of the MB and the BoD – Share ownership status review	– Review of proxy advisor/ shareholder feedback on compensation report – Board evaluation		– Review of draft compensation report – NCC agenda for the following financial year

Special ad hoc items such as personnel changes at executive level are covered as and when appropriate. There has been greater interaction between the Board of Directors and the NCC, and also the Management Board, in the context of the current COVID-19 related crisis: for example, additional NCC meetings were held in April and July 2020 to review COVID-19 related compensation proposals including rolling target setting as outlined in this compensation report.

As a general rule, the Chair of the Board of Directors, the CEO, and the Group Vice President (GVP) Corporate Human Resource Management & Communications (HRM) participate in the meetings of the NCC. However, they do not participate during the section of the meetings where their own performance and/or compensation is discussed.

There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chair of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors.

External advisors

The NCC may decide to consult external advisors for specific compensation matters. In the 2020/21 reporting year, Aon was once more tasked with the performance share unit (PSU) valuation and performance measurement under the EEAP; Algofin performed the option valuation. Support and expertise are also provided by internal compensation experts such as the GVP HRM and the VP Total Reward.

The external advisors had no other mandates during the reporting year.

3.3 Governance and shareholders' involvement

Authority for decisions related to compensation of the members of the Board of Directors and the Management Board is governed by the Articles of Association:

The prospective maximum aggregate compensation amounts to be awarded to the Board of Directors and the Management Board are subject to a yearly binding shareholder vote at the AGM. The provisions of the Articles of Association foresee that shareholders vote prospectively: on the maximum aggregate compensation for the Board of Directors for the period until the next ordinary AGM, and for the Management Board for the following financial year. In addition, Sonova annually submits the compensation report to a consultative shareholders' vote, so that our shareholders have an opportunity to express their opinion on the compensation of the previous financial year.

Over the past several years Sonova has engaged in ongoing dialogue with shareholders and proxy advisors and has made significant efforts to continuously improve its compensation disclosure in terms of transparency and level of detail provided about its principles and system of compensation.

Matters to be voted on at the 2021 Annual General Shareholders' Meeting:
The maximum aggregate compensation amount for the Board of Directors comprises fixed compensation components, including a cash retainer and restricted shares as well as committee fees and travel allowance (as applicable).

The maximum aggregate compensation amount for the Management Board (including the CEO) comprises:

Fixed compensation components:
- Fixed base salary, value of benefits and employer's contributions to Sonova's pension plan

Variable compensation components:
- Short-term cash incentive award (VCC): maximum possible payout under the VCC, should the achievement of all performance objectives reach the cap

- Long-term equity incentive award (EEAP): fair value of the equity awards at grant (options and PSUs)

Due to the maximum possible VCC payout, the maximum aggregate compensation amount submitted to shareholders' vote is very likely to be higher than the actual amount of total compensation for the members of the Management Board based on the performance achieved in the financial year. The total compensation amount awarded to the Management Board will be disclosed in the compensation report of the respective financial year, which will be subject to a consultative shareholders' vote at the AGM.

We are convinced that the binding prospective votes on the maximum aggregate compensation amounts, combined with a consultative retrospective vote on the compensation report, provide Sonova's shareholders with a far-reaching "say on pay."

Articles of Association

The Articles of Association regarding the compensation of the members of the Board of Directors and the Management Board were revised in 2014 and approved by the shareholders at the 2014 AGM. The Articles of Association include the following provisions on compensation:

- Powers and duties (Art. 24)
- Approval of compensation by the General Shareholders' Meeting (Art. 10 para. 5/Art. 26)
- Additional reserve amount for changes in the Management Board (Art. 27)
- General compensation principles (Art. 28)
- Maximum consideration for non-competition agreement (Art. 29 para.3)
- Prohibition on loans (Art. 31)

The Articles of Association are available in their entirety here.

3.4 Process of determining compensation

Compensation structure and components

The compensation structure and components for the Board of Directors and the Management Board are reviewed periodically to ensure they continue to be aligned with Sonova's strategy as well as with market practice.

Benchmarks

Sonova periodically reviews the total compensation of members of the Board of Directors and of the Management Board. The benchmark reviews for the Management Board take into consideration our principles of both market and performance related compensation.

A thorough review was conducted during the course of the 2018/19 reporting year to help determine appropriate compensation for the Board of Directors and the Management Board both in terms of structure and overall levels.

For the Board of Directors, the review considered companies in the SMIM (Swiss Market Index Mid), which comprises the 30 largest mid-cap stocks in the Swiss equity market that are not included in the blue-chip SMI index. The analysis (incorporating the input of shareholders and proxy advisors) showed that, although the overall fees paid to members of the Board of Directors are in line with the market, a re-alignment in terms of the structure of board retainer and committee fees was needed, which was reported in the compensation report for the 2018/19 financial year and implemented during the 2019/20 financial year.

The analysis showed that, at the time that it was conducted, Sonova's Management Board compensation structure was more performance oriented (and less fixed) than at other companies, and that levels were generally in line with prevalent market practice. The peer group of companies considered for the review consisted of Swiss general industry companies that are comparable in terms of market capitalization, revenue, industry, number of employees, geographic reach, etc. These included Bucher Industries AG, dormakaba Holding AG, EMS-Chemie Holding AG, Geberit AG, Georg Fischer AG, Logitech International S.A., Straumann Holding AG, and Sulzer Ltd., as described in last year's compensation report.

An update of the total compensation benchmark of members of the Board of Directors and of the Management Board is planned for the 2021/22 financial year.

Performance management

The actual compensation of the members of the Management Board in a financial year depends on the performance of the Group and/or respective business unit, as well as on individual performance, which is assessed through the formal annual performance review process. Financial, business unit, and individual performance objectives are normally approved at the beginning of the financial year and achievements against those objectives are generally assessed at the end of the financial year, according to Sonova's performance appraisal process.

4. Compensation components and system

4.1 Overview of compensation components

The table below provides an overview of the compensation components for the Board of Directors and the Management Board, with more details on both included later in the report:

	Management Board[1)]	Board of Directors[1)]
	CEO/CFO/GVPs	BoD
Fixed compensation components		
Fixed base salary		
Benefits[2)]		
Expense allowance[3)]		
Cash car allowance[3) 4)]		
Cash retainer (fixed fee)		
Restricted shares		
Committee fee[5)]		
Travel allowance		
Pension benefits		
Pension Fund		
Variable compensatin components (performance related)		
Short-term cash incentive award Variable Cash Compensation (VCC)		
Long-term equity incentive award[6)] Executive Equity Award Plan (EEAP)		
Social and other benefits		
Other benefits		

1) Mandatory social security constributions (AHV/ALV or for the international MB the local equivalent company costs) are paid by Sonova and disclosed in the compensation report
2) MB members under a non-Swiss employment contract receive benefits in line with local practice.
3) Only for MB members with a Swiss employment contract
4) Flat rate cash car allowance
5) If applicable
6) Awarded in the form of options and PSUs

4.2 Board of Directors compensation system

Role, responsibility and commitment

Sonova needs to be able to attract and retain members of the Board of Directors who are highly experienced and motivated to contribute their specific business expertise and perform a critical role in the strategic oversight of the company. Their compensation must enable this, while taking account of the way their contribution to Sonova's success differs from that of the members of the Management Board.

Requirements – in terms of qualifications, skills, and experience – for directors of international listed companies are becoming ever more stringent. Sonova's Board of Directors has the relevant and necessary skill set to ensure proper professional supervision, including international, industry, and subject specific experience.

The structure of fees paid reflects varying responsibilities, committee memberships, workloads and time commitments, so individual levels of pay are not the same. The Chair of the Board of Directors, for example, devotes a substantial amount of his time to mandated duties, including leading the Board of Directors and committees, coordinating Board and committee meeting agendas and topics with committee chairs, and managing as well as contributing to and participating in committees. As NCC Chair, he takes the lead on topics such as Board and CEO evaluation, Board skill and competence definition and composition, new Board member recruitment and on-boarding, and participating in recruitment of Management Board members – as well as overseeing all compensation related matters.

The Chair is also responsible for the continued development and adaptation of Sonova's governance to meet regulatory and corporate requirements, preparing for and conducting the AGM, and overseeing the annual and compensation reports, as well as advising the CEO on key strategic, financial, HR, and operational matters. His role also encompasses third party interactions such as shareholder inquiries and requests about corporate governance and corporate responsibility as well as meetings with proxy advisors. His sound understanding of the company, developed over many years of service, is a unique and valuable qualification that we believe provides a substantial benefit to Sonova and its shareholders.

More details on the Board of Directors' composition, diversity, competencies, evaluation, risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

Compensation structure

It is important that compensation components are structured to achieve a strong alignment with the interests of our shareholders. In line with best practice, a significant portion of the compensation for the Board of Directors consists of restricted shares; members of the Board of Directors receive no variable or performance-based compensation and are not eligible to participate in the occupational pension plan.

The compensation of members of the Board of Directors is defined in a regulation adopted by the Board of Directors; it consists of fixed compensation, namely a cash retainer and shares with a restriction period of five years and four months (Chair of the Board of Directors) or four years and four months (all other members). In addition, members of the Board of Directors receive a committee fee (if applicable) and a travel allowance.

Compensation structure 2020 AGM to 2021 AGM

Annual fees in cash in CHF	Chair[1]		Board members excl. Chair	
	Standard	Actual (reduced due to COVID-19)[2]	Standard	Actual (reduced due to COVID-19)[2]
Cash retainer	470,000	0 (social security contributions for the portion delivered in restricted shares are covered)	100,000	80,000
Vice-Chair	n.a.	n.a.	15,000	12,000
Chair of AC	n.a.	n.a.	40,000	32,000
Chair of NCC	Included in cash retainer	Included in cash retainer	40,000	32,000
Member of NCC/AC	n.a.	n.a.	20,000	16,000
Travel allowance[3]	500	0	500	0

Restricted shares in CHF	Chair	Board members excl. Chair
Market value at grant	370,000	160,000

[1] Including work and attendance in the NCC (Chair) and the AC (attendance)
[2] Given the COVID-19 context, the Chair waived his cash retainer (net of social-security contributions for the portion delivered in restricted shares) and the other members of the Board of Directors waived 20 % of their cash retainer and commitee fees for this term of office from the 2020 AGM to the 2021 AGM.
[3] Multiplied by the number of meetings attended

The table above provides an overview of the normal compensation structure of the Board of Directors as well as the temporary reductions made during the period.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the COVID-19 related crisis included that the Chair of the Board of Directors waived his cash retainer (net of social security contributions for the portion delivered in restricted shares) from April 2020 until the 2021 AGM. Additionally, the other members of the Board of Directors waived 20% of their cash retainer and committee fees for this term of office from the 2020 AGM to the 2021 AGM.

The compensation of members of the Board of Directors is subject to mandatory employer social security contributions (AHV/ALV). These contributions are paid by Sonova and are disclosed in the compensation report in compliance with Sonova's reporting obligations.

Sonova does not grant contractual severance payments to members of the Board of Directors, nor does Sonova make advance payments or grant loans to them.

Sonova Share Ownership Guidelines

To further align the interests of the Board of Directors with those of our shareholders, the Sonova share ownership guidelines require the members to hold a fixed value in shares.

Members of the Board of Directors are required to maintain a minimum shareholding equivalent to CHF 200,000. They have five months from the first grant of restricted shares to achieve 80% of the required shareholdings, and one year and five months from the same point in time to achieve the full required shareholdings. The requirements of the guidelines can be met through shareholdings in the form of the restricted shares awarded as part of compensation and, if applicable, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the NCC.

4.3 Management Board compensation system

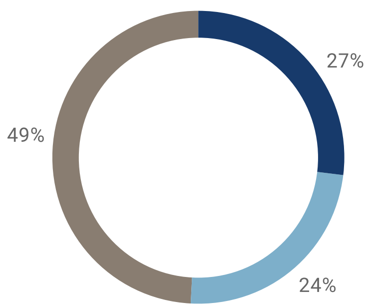
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- A fixed base salary;
- A short-term cash incentive award (VCC);
- A long-term equity incentive award (EEAP); and
- Employee benefits, such as pension benefits, flat rate cash car allowance, expense allowance, relocation benefits for certain affected members, as well as social security contributions.

As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company's strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has proven effective over many years; however, certain specific short-term adjustments are being made to ensure continued alignment during the COVID-19 related crisis. These changes are summarized in the introduction and outlined under each element below.

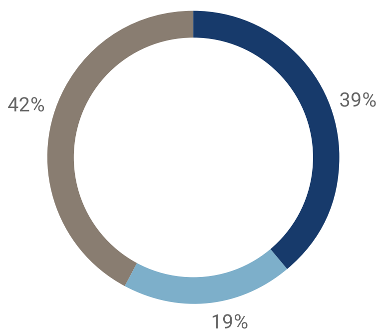
The charts below illustrate the compensation mix excluding employee benefits at target for the CEO, Arnd Kaldowski, and the Management Board in the 2020/21 financial year:

Compensation mix of the CEO, Arnd Kaldowski



Base salary VCC EEAP

Compensation mix of the other members of the Management Board[1)]



Base salary VCC EEAP

[1)] Average mix

The table on the next page provides an overview of the compensation components of the Management Board, with more details on the following pages. The ratio of the VCC and the EEAP as a percentage of the fixed base salary shown in the table on the next page can vary slightly year-on-year, depending on which component (if any) is adjusted as a result of the compensation review.

Compensation structure 2020/21 financial year

	Fixed compensation components		Variable compensation components		
	Fixed base salary	**Benefits**	**Short-term cash incentive award (VCC)**	**Long-term equity incentive award (EEAP)**	
Purpose	Ensures a predictable payment, depends on the market value of the role and the profile of the incumbent	Establishes level of security in line with local market practice Mandatory and voluntary benefits plans offered by the employer	Rewards performance against key performance indicators (KPIs) at Group and business unit level as well as the achievement of individual objectives	Rewards long-term value creation and reinforces alignment with shareholder interests	
Vesting Period	n.a.	n.a.	financial year	Options 16–52 months	PSUs 40 months
KPIs	n.a.	n.a.	**A – Group** Sales, EBITA, FCF, EPS **B – Business Unit** Sales, EBITA, ASP, OPEX **C – ESG objectives**[1)] **D – Individual objectives**[1)]	ROCE	rTSR
Delivery	Cash, regularly	Country specific	Cash	Options	PSUs
Restriction period	n.a.	n.a.	n.a.	Five years from grant date	
Cap	n.a.	n.a.	yes	yes	
CEO Ratio in % of fixed base salary:	n.a.	n.a.	**Target of fixed base salary: 89%** **Range of fixed base salary: 0 % –178%**	**Target of fixed base salary: 181%** **Range of fixed base salary: 0 % –248%**	
MB (excl. CEO) Ratio in % of fixed base salary:	n.a.	n.a.	**Target of fixed base salary: up to 50 %** **Range of fixed base salary: 0 % –100 %**	**Target of fixed base salary: up to 133%** **Range of fixed base salary: 0 % –199%**	

[1)] For second half of the 2020/21 financial year

Fixed base salary

The fixed base salary ensures a recurrent payment in cash in regular instalments. The salary level is based on the scope and complexity of the position, market norms and benchmarks, and the individual's profile in terms of experience and skills. Salary progression depends primarily on the individual's performance, as well as on market developments and the economic environment.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the COVID-19 related crisis included a freeze on salary increases for the Management Board in the 2020/21 financial year. Moreover, the CEO waived 50% of his monthly base salary, and each of the other Management Board members 20% of their monthly base salaries, from April 2020 to September 2020.

Short-term cash incentive award (Variable Cash Compensation)

Sonova's VCC aims at aligning a significant part of compensation to budget achievements in a given financial year. The VCC is an integral component of the compensation for members of the Management Board, defined as a percentage of the annual fixed base salary. At target, it amounts to 89% of fixed base salary for the CEO and up to 50% for the other members of the Management Board.

The Board of Directors normally determines annually the target performance level for each key performance indicator (KPI) for the following financial year, based on the recommendation of the NCC. The targets are generally set in such a way that on an adjusted base, substantial improvements from the previous financial year's achievement are required, in line with the company's ambitious mid- and long-term financial plans. Setting demanding and ambitious targets helps Sonova strive to deliver best-in-class performance and stay ahead of the market. Lower and upper performance thresholds are also set, below which the payout percentage is zero, and above which it is capped at 200%. Payout levels between the threshold, the target, and the maximum are calculated by linear interpolation.

The VCC for the Management Board is normally based on three categories of performance objectives: Group and/or business unit and individual performance objectives. During the course of the 2020/21 financial year, ESG targets were more formally introduced. The performance objectives that must be met to achieve the target VCC are mutually agreed at the beginning of the financial year.

In line with our strategy and to reflect Sonova's corporate social responsibility and sustainable business approach, business relevant ESG targets are formally reflected in the VCC from the second half of the 2020/21 financial year. As already outlined in the 2019/20 compensation report, 10% of the overall VCC targets for each member of the Management Board were shifted (5% each from the financial and from the individual targets) and linked to specific, tangible ESG related initiatives.

Group performance objectives are based on the budget; the specific KPIs can include sales, EBITA, FCF, EPS and ESG. Business unit performance objectives can include sales, EBITA, ASP and OPEX of the respective business unit. These KPIs have been chosen because they are the key drivers for the long-term success of Sonova; they reward for expanding the business, gaining market share, and further increasing profitability through operating leverage.

In broad terms, the rationale for applying these particular Group and business unit performance indicators in determining the VCC is as follows: sales correlate with market success, EBITA reflects profitability, ASP tracks value add and price discipline, OPEX and FCF represent respectively operational and capital efficiency, and ESG reflects Sonova's sustainability focus. As for the performance indicators linked to the external market, earnings per share is important to shareholders and for the determination of the share price.

With the introduction of ESG targets, group and business unit financial performance objectives are generally weighted at 75% of the overall VCC. ESG performance objectives represent 10% of the overall VCC on an annualized basis. The individual performance component is based on the achievement of individual objectives defined at the beginning of the financial year between the CEO and individual members of the Management Board – and, for the CEO, between the Board of Directors and the CEO. With the introduction of ESG targets, the total weight of the three to six individual performance objectives for each member of the Management Board is generally 15% of the overall VCC. The weight can be increased up to 35% for exceptional reasons, such as supporting key strategic initiatives, including research and development.

Ranges of performance objectives for members of the Management Board

Performance Objective	CEO/CFO	Other members of the MB	Minimum payout (threshold)	Target payout (target)	Maximum payout (cap)
A – Group objectives					
Sales	20%–30%	10% –30%	0%	100%[1]	200%
EBITA	0%–20%	10% –30%			
FCF	20%–30%	10% –30%			
EPS	20%–40%	0% –35%			
B – Business objectives[2]					
Sales		0% –30%	0%	100%	200%
EBITA		0% –20%			
OPEX		0% –30%			
ASP		0% –10%			
C – ESG objectives[3]					
ESG objectives	10%	10%	0%	100%	200%
D – Individual objectives[3][4]					
Initiatives / Projects	15%	15%–25%	0%	100%	200%

1) At target the VCC amounts to 89% of base salary for the CEO and up to 50% for the other members of the Management Board.
2) Not all of the business objectives apply to all members of the Management Board.
3) Given the COVID-19 context, included only for the second half of the 202/21 financial year.
4) In exceptional circumstances, up to 35% (e.g. to support key strategic initiatives).

This section and table provide an overview of the normal structure of the VCC.

As outlined in the introduction to this compensation report, in response to the COVID-19 related uncertainty, target setting for the VCC was governed on a rolling basis to reflect rapidly changing market conditions in the 2020/21 financial year. ESG targets were more formally introduced in the second half of the 2020/21 financial year; while the KPIs generally remained the same, the target weightings reflected the primary focus on liquidity, costs and growth. This included shifting all weightings for individual targets to financial targets for the first two quarters of the financial year. Additionally, the maximum VCC payout during the 2020/21 financial year is capped at 100% for Management Board members.

Long-term equity incentive award (Executive Equity Award Plan)

The purpose of the EEAP is to ensure long-term value creation for the company, alignment of the interests between shareholders and the members of the Management Board, and the long-term retention of talent at Sonova.

The EEAP is offered annually to the members of the Management Board. The Board of Directors determines the individual grant level to the members of the Management Board based on the recommendation of the CEO, and to the CEO based on the recommendation of the NCC. Generally, the grant date is on February 1 each year.

Under the EEAP, the CEO receives an equity compensation mix of 62.5% in options and 37.5% in PSUs and the other members of the Management Board are awarded 50% in options and 50% in PSUs.

Options

A portion of the EEAP is allocated in the form of performance options: This reflects the growth-focused strategy and the desire to further strengthen the alignment of the Management Board compensation with our shareholders' interests.

Options granted under the EEAP vest in four equal annual instalments over a period of 16–52 months, generally depending on ROCE achievement. The first tranche vests on June 1 of the year following the grant year (16 months after grant date). The exercise price of the options is the closing price of the Sonova share on the Swiss Stock Exchange (SIX Swiss Exchange) at the grant date, and the life of the options is 10 years (grants before the 2017/18 financial year: 7 years).

The fair value of the options is calculated at the grant date by a third party using the "Enhanced American Pricing Model." Additional information is available in Note 7.4 to the consolidated financial statements. Re-pricing of any out-of-the-money options granted under the EEAP is prohibited.

For reference, the average vesting duration for options is 34 months. Options have usually been exercised approximately one and a half years after the vesting date. In this way options align management with shareholder interest, as value creation is only realized in the event of increasing share price (see section 5 for more information on the overall levels of the target achievements as well as other qualitative comments).

Vesting of option grants made under the EEAP to members of the Management Board generally uses ROCE as its performance criterion because this metric reflects multiple KPIs, including both the profitability of the company and the efficiency with which Sonova's capital is being employed. The Board of Directors generally determines the target level of performance at which the options will vest in full and a minimum performance threshold below which there is no vesting. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation.

There is no provision for over-achievement; the proportion of options that can vest ranges from 0% to 100%.

From the option grants in February 2020 onwards and to further foster long-term alignment with shareholder interests, options are now subject to a five-year restriction period from the grant date. During this period, even after the vesting date, options cannot be exercised, sold, pledged, assigned, transferred or otherwise disposed of.

Performance Share Units

The other portion of the EEAP is allocated in the form of PSUs: PSUs vest based on achieving relative Total Shareholder Return (rTSR). This external criterion, measured against a peer group of relevant companies, provides a performance assessment against these companies designed to incentivize members of the Management Board to achieve strong performance.

PSUs granted under the EEAP will cliff vest after three years and four months, depending on the rTSR achievement. Sonova's TSR is measured against those of the SLI®[1] constituents that remain in the index during a performance period of three years and two months from grant. The slightly shorter performance period provides sufficient time to test for performance and receive approval of the calculation prior to vesting. The SLI® was selected in order to compare Sonova´s performance to companies with a comparable geographic footprint, providing a relevant and challenging benchmark for Sonova's value creation.

Depending on the rTSR performance ranking, the cliff vesting of PSUs is as follows:

- 20th percentile or below: no cliff vesting occurs and granted PSUs are forfeited
- 50th percentile: 100% of granted PSUs cliff vest
- 80th percentile or above: 200% of granted PSUs cliff vest (cap)

The number of shares allocated for each vested PSU between the 20th and 80th percentile is calculated by linear interpolation. As an additional performance alignment measure, if Sonova's (absolute) TSR is negative over the performance period, the cliff vesting is capped at 100%.

The calculation of rTSR target achievement will be conducted using the average closing price for 3 calendar months prior to grant and end of performance period respectively. The fair value of the PSUs is calculated at the grant date by a third party by using the "Monte Carlo Pricing Model." Additional information is available in Note 7.4 to the consolidated financial statements.

As with the options, and to further foster long-term alignment with shareholder interests, PSU grants from February 2020 onwards are subject to a five-year restriction period from the grant date. During this period, even after the vesting date, PSUs and underlying shares cannot be sold, pledged, assigned, transferred or otherwise disposed of.

1) The Swiss Leader Index (SLI) includes the 30 largest and most liquid securities in the Swiss equity market

Summary of the EEAP instruments

EEAP 2021		
Equity	**Options**	**PSUs**
Grant Date	February 1, 2021	February 1, 2021
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation (Black-Scholes Model for the impact of the restriction period)	Based on Monte Carlo Model valuation
Exercise/Strike Price	**CHF 218.70** (Sonova closing SIX share price on February 1, 2021)	n.a.
Vesting Date	25% vests on June 1, 2022 25% vests on June 1, 2023 25% vests on June 1, 2024 25% vests on June 1, 2025	3 years + 4 months cliff vesting 100% vest on June 1, 2024
Vesting multiple	0%–100% of grant (ROCE)	0%–200% of grant (capped at 100% if the absolute TSR is negative) Floor: 20th percentile TSR (multiple = 0) Target: 50th percentile TSR (multiple = 1.0) Cap: 80th percentile TSR (multiple = 2.0) linear interpolation in between
Performance criterion	Number of options which vest depends on the achievement level of the ROCE target	Number of PSUs which vest depends on the achievement level of the rTSR target (against the SLI constituents)
Restriction Period	Five years from the grant date (January 31, 2026)	Five years from the grant date (January 31, 2026)
Exercise Period	After the end of the restriction period until expiry	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2031)	No maturity/expiry restriction after vesting

This section and table provide an overview of the normal structure of the EEAP.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to COVID-19, the Board of Directors is convinced that the EEAP continues to fulfil its purpose of ensuring long-term value creation for Sonova and alignment of management's interests with shareholders': The benefit for the Management Board members will only arise if the company performance and share price increase and outperform peers. Given the COVID-19 related crisis and its uncertainties, and after thorough consideration, the Board of Directors had anticipated the possible need to suspend, for the time being, the ROCE target for the portion of the EEAP delivered in options. However, given the strong management of profitability, along with the efficiency of employed capital during the COVID-19 crisis, the Board decided to not apply this suspension.

Termination of employment under the long-term equity incentive award (Executive Equity Award Plan)

In the event of termination of employment, unvested awards (options, RSUs, PSUs) are forfeited. Any applicable restriction period for grants from 2020 onwards continues to apply, unless specifically provided otherwise below. Vested options can be exercised within a period of three months. Specific exceptions include:

- In case of death or disability, unvested options and RSUs vest immediately and unvested PSUs according to the regular vesting schedule. Any still applicable restriction period lapses. The vested options are exercisable within a period of 12 months commencing on the date of death or termination.
- In case of retirement, the unvested options and RSUs with a vesting date during the calendar year of the employee's retirement vest according to the regular vesting schedule. The restriction period, if applicable, continues to apply. The vested options are exercisable for a period of 12 months from the latter of the date of expiry of the restriction period or of retirement. Unvested equity grants with a vesting date after the calendar year of the employee's retirement are forfeited without any compensation.
- For PSUs, in case of a qualified retirement as specified in the plan rules and subject to further requirements, any then unvested PSUs will vest on a pro-rata basis. However, the performance assessment will only be determined upon completion of the performance period.
- In case of a termination of employment by a participant or by Sonova (except for termination for cause) for Management Board members in office on April 1, 2017 whose date of termination occurred between the grant date in 2018 and/or 2019 and May 31, 2021 (transition period), any then unvested PSUs vest on a pro-rata basis. However, the performance assessment is only determined upon completion of the performance period.
- In the event of termination of employment by Sonova for cause all options, whether vested or not, and other unvested awards become null and void immediately. "Cause" means any act of fraud, embezzlement or dishonesty, unauthorized use or disclosure of confidential information or trade secrets of Sonova, or any other misconduct by the employee.
- In the event of termination of employment by the acquiring company following a change of control ("double trigger"), unvested equity grants vest immediately on a pro-rata basis considering the period from the grant date to the effective date of the termination compared to the original period at target level, for options, and for PSUs based on actual achievement of the PSU performance conditions as of the date of occurrence of the change of control. Any still applicable restriction period lapses on an employee's date of termination. Vested options are exercisable for a period of three months commencing on an employee's date of termination. This rule does not apply in the event of voluntary resignation by the employee following a change of control. In such case, equity grants are forfeited.

Disclosure of targets

Internal individual and/or financial targets under the VCC and the EEAP plans are generally considered sensitive information with the exception of information relating to rTSR for PSUs. Disclosing internal targets would allow confidential insight into our strategy and thus could create a competitive disadvantage for Sonova.

Therefore, after review and careful consideration during the reporting year, the decision was made not to disclose the specifics of the VCC and EEAP internal financial targets at the time of their setting, but to ensure transparency by disclosing target achievements and their respective payouts at the end of the relevant period. Accordingly, the first PSU target achievement of rTSR occurring this reporting year is disclosed.

As a general rule, on a comparable basis, substantial improvements against the previous year's achievements are required in order to meet the growth targets, in line with the company's ambitious strategic and financial plans and as communicated to the capital market.

However, given the impact of the current COVID-19 related crisis on our business, quarterly VCC targets were set for the first two quarters and half-year targets for the second half of the 2020/21 financial year. Also, to focus on financial business performance in this challenging context, individual targets were not set for the first two quarters and only re-introduced in the second half of the financial year. At the same time and as previously announced, ESG targets were introduced.

Sonova Share Ownership Guidelines

To further align the interests of the Management Board with those of our shareholders, the Sonova share ownership guidelines require Management Board members to hold a minimum fixed value in shares equivalent to the following amounts:

- CEO: CHF 1,000,000
- Other members: CHF 200,000

They have three years and five months after receiving the first grant as a Management Board member to build up the shareholding, with a required progression of one year and five months for a 12.5% achievement, and two years and five months for a 25% achievement. Only shares in the form of fully vested shares awarded as part of compensation and, if applicable, share purchases on the open market are counted. Compliance with the shareholding requirement is reviewed annually by the NCC.

Benefits

As the Management Board is international in its nature, the members participate in the benefit plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance, and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to retirement income, healthcare provision, and coverage against the risk of disability or death.

Sonova maintains defined-contribution plans under the Swiss occupational pension regulations. Pension benefits are provided through the regular pension plan. Members of the Management Board who are under a Swiss employment contract are eligible for the same benefits as all other employees in Switzerland. Members of the Management Board who are under a foreign employment contract receive benefits in line with local current market practice.

The compensation of members of the Management Board who are under Swiss employment is subject to mandatory employer social security contributions (AHV/ALV).

The benefits and company contributions covered by Sonova are disclosed in the compensation report in compliance with Sonova's reporting obligations.

The CEO and selected members of the Management Board are entitled to a flat rate cash car allowance as well as an expense allowance in line with the expense regulations applicable to all members of management in Switzerland, which is approved by the Swiss tax authorities.

Employment terms and conditions

As part of its commitment to good corporate governance, Sonova has a forfeiture provision in all employment agreements with the Management Board members. It provides for repayment of any compensation paid or granted prior to approval by the AGM if the proposed aggregate compensation of the members of the Management Board is not approved.

All members of the Management Board have permanent employment contracts with a notice period of a maximum of six months. The notice period for the CEO is 12 months.

Sonova does not grant contractual severance payments to members of the Management Board, nor does Sonova make advance payments or grant loans to them. There are no change of control provisions other than those highlighted in the EEAP termination provisions.

Claw-back

Sonova has introduced a claw-back provision allowing the company to reclaim any VCC payment, in part or in full, in the event of an accounting/financial restatement due to non-compliance with financial reporting requirements under the Swiss laws at the time of disclosure. This provision applies to all VCC payments for a period of three years following the financial year related to which the VCC payment has been made.

We believe that the five-year restriction period under the EEAP represents an effective solution to mitigate any impact in the event of an accounting/financial restatement due to non-compliance with financial reporting requirements under the Swiss laws at the time of disclosure.

5. Compensation for the financial year

5.1 Board of Directors compensation

The tables in this section are audited by the external auditor.

The following table shows the compensation for the individual members of the Board of Directors for the 2020/21 financial year (9 members from the 2020 AGM) and for the 2019/20 financial year (8 members). The total compensation in the 2020/21 financial year was CHF 2.6 million (2019/20: CHF 2.9 million).

Board of Directors compensation

in CHF						**2020/21**
	Cash retainer (fixed fee) [1]	Expenses [2]	Total cash compensation	Grant value of restricted shares	Total compensation	Employer's social insurance contribution (AHV/ALV) [3]
Robert F. Spoerry [4] [5] Chair of the Board of Directors Chair of the Nomination and Compensation Committee	15,450	1,500	16,950	369,011	385,961	17,858
Beat Hess Vice-Chair of the Board of Directors Member of the Nomination and Compensation Committee	138,162	3,500	141,662	159,519	301,181	16,460
Lynn Dorsey Bleil Member of the Audit Committee	122,529	3,000	125,529	159,519	285,048	18,425
Lukas Braunschweiler	104,219	2,500	106,719	159,519	266,238	245,809
Stacy Enxing Seng Member of the Nomination and Compensation Committee	122,529	3,500	126,029	159,519	285,548	18,460
Michael Jacobi Member of the Audit Committee	126,076	3,500	129,576	159,519	289,095	15,634
Ronald van der Vis Chair of the Audit Committee	139,318	3,000	142,318	159,519	301,837	19,610
Jinlong Wang	104,219	2,500	106,719	159,519	266,238	17,098
Adrian Widmer [6]	77,063	–	77,063	159,519	236,582	14,811
Total	**949,566**	**23,000**	**972,566**	**1,645,164**	**2,617,730**	**384,165**

The compensation shown in the table above is gross and based on the accrual principle.

1) As of the 2020 AGM, fee payment is aligned with the term of office (instead of the financial year). For the transition, catch up payments in a total amount of CHF 178,111 had to be made in June 2020.
2) Travel expenses are paid only for attended meetings. No travel expenses paid from 2020 AGM to 2021 AGM due to COVID-19.
3) Employer social security contributions on the cash retainer, the tax value of income derived from outstanding EEAP awards (former CEO) and restricted shares granted during the financial year.
4) Including NCC and AC work and attendance.
5) Amount of CHF 15,450 included under Cash retainer was not paid out, but covers the netting of the social security contributions on the restricted shares.
6) Member of the Board of Directors since June 2020

in CHF						2019/20
	Cash retainer (fixed fee)	Expenses [1]	Total cash compensation	Grant value of restricted shares	Total compensation	Employer's social insurance contribution (AHV/ALV) [2]
Robert F. Spoerry [3] Chair of the Board of Directors Chair of the Nomination and Compensation Committee	476,343	2,500	478,843	372,664	851,506	52,535
Beat Hess Vice-Chair of the Board of Directors Member of the Nomination and Compensation Committee	132,541	4,500	137,041	161,000	298,041	15,713
Lynn Dorsey Bleil Member of the Audit Committee	117,532	4,500	122,032	161,000	283,033	17,757
Lukas Braunschweiler	100,000	4,000	104,000	161,000	265,000	376,364
Stacy Enxing Seng Member of the Nomination and Compensation Committee	117,532	4,500	122,032	161,000	283,033	17,757
Michael Jacobi [4] Member of the Audit Committee	129,058	4,500	133,558	161,000	294,559	15,491
Ronald van der Vis Chair of the Audit Committee	133,489	4,000	137,489	161,000	298,489	18,856
Jinlong Wang	100,000	4,000	104,000	161,000	265,000	16,515
Total (active members)	**1,306,494**	**32,500**	**1,338,994**	**1,499,667**	**2,838,662**	**530,988**
Anssi Vanjoki [5] Member of the Audit Committee	21,795	3,000	24,795		24,795	1,785
Total (including former members)	**1,328,289**	**35,500**	**1,363,789**	**1,499,667**	**2,863,456**	**532,773**

The compensation shown in the table above is gross and based on the accrual principle.

1) Expenses are based on the number of meetings attended by each member of the Board of Directors (attendance fees discontinued from the 2019 AGM forward).

2) Employer social security contributions on the cash retainer, the tax value of income derived from outstanding EEAP awards (former CEO) and restricted shares granted during the financial year.

3) Including NCC and AC work and attendance.

4) Including a compensation of CHF 10,000 for the term of office for extraordinary, supplemental work and contribution during the transition to the new Chair of the Audit Committee as well as on the hiring process for a new member of the Board of Directors.

5) Member of the Board of Directors until June 2019

Explanatory comments to the compensation tables

Note that the amounts reported for members of the Board of Directors in the tables do not necessarily correspond to the amounts voted on at the AGM, as the reporting period follows the Sonova financial year, whereas the voting follows the term of office – the period between AGMs.

The 2020/21 financial year table reflects the current COVID-19 related compensation measures: The Chair of the Board of Directors waived his entire cash retainer (net of social security contributions for the portion delivered in restricted shares) from April 2020 until the 2021 AGM. The other members of the Board of Directors waived 20 percent of their cash retainer and committee fees for the term of office from the 2020 AGM until the 2021 AGM.

5.1.1 Approved versus expected total compensation for the members of the Board of Directors

The total compensation paid to the Board of Directors for the period from the 2020 AGM to the 2021 AGM is expected to be CHF 2.4 million. The value of the cash retainer waived by the Chair of the Board of Directors for this term of office (from the 2020 AGM to the 2021 AGM) equals CHF 0.5 million, that for the other members of the Board of Directors equals CHF 0.2 million in total. The total compensation is within the limit of CHF 2.6 million approved by the 2020 AGM.

Approved versus expected total compensation for the members of the Board of Directors

in CHF 1,000	Approved for AGM 2019 – AGM 2020	Effective for AGM 2019 – AGM 2020	Approved for AGM 2020 – AGM 2021	Expected for AGM 2020 – AGM 2021
AGM approval year		**2019**		**2020**
Total compensation	**2,900**	**2,735**	**2,600**	**2,426**
Breakdown total compensation:				
Fixed fees including expenses [1)]	1,363	1,235	875	780
Market value of restricted shares	1,537	1,500	1,725	1,646
Number of members of the Board of Directors	**8**	**8**	**9**	**9**

1) Fixed fee amounts for AGM 2020 – AGM 2021 reflect the impact of the COVID-19 related measures outlined in this report.

5.1.2 Other compensation, loans, and credit for current and former members of the Board of Directors and related parties

No other compensation was paid to current members of the Board of Directors for additional services beyond the total compensation disclosed in the tables above. No other compensation was paid to former members of the Board of Directors beyond the total compensation disclosed in the tables above.

In the year under review, no payments were made to individuals who are closely related to any current or former member of the Board of Directors.

No loans were granted by Sonova or any other Group company to current or former members of the Board of Directors in the 2020/21 financial year, and no such loans were outstanding as of March 31, 2021. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of current or former members of the Board of Directors.

5.2 Management Board compensation

The tables in this section are audited by the external auditor.

5.2.1 Compensation awarded for the 2020/21 financial year

As outlined before, our basic principle is that any compensation changes for the Management Board are made only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization, with a primary focus on the variable compensation components, and they can be differentiated in cases such as, for example, a change to a position's responsibilities. They are also aligned with data from executive compensation surveys and published benchmarks from companies of similar size.

In line with the decision of the Board of Directors mentioned earlier in this compensation report, no salary increases were given to any member of the Management Board in the 2020/21 financial year. Additionally, the CEO waived 50% of his base salary, and each of the other Management Board members 20% of their base salary, from April 2020 until September 2020.

Variable Cash Compensation performance outcomes 2020/21

The system of the VCC is outlined in more detail in section 4.3 of this report. The following KPIs are used in addition to ESG and individual qualitative targets to assess the performance of the Management Board: at the Group level, sales, EBITA, EPS and FCF; and additionally, on the business level, ASP and OPEX.

Given the need to adapt to an uncertain and rapidly changing economic situation, more dynamic rolling VCC targets were set for the 2020/21 financial year, and firmly governed as circumstances continued to change. These actions are described in this compensation report. On an annualized basis, the overall Group sales target was exceeded at 125.6%, driven by growth investments and strong execution of product launches. Given the volatility introduced by the COVID-19 pandemic, the achievement differed between the different assessment periods, with overachievements in the first and second quarters being partly compensated by lower achievements in the second half-year (against significantly increased targets). While the hearing instruments and audiological care business exceeded their growth target, the cochlear implant business was below target.

In the overall annualized assessment, the hearing instruments segment contributed well to the Group's EBITA target achievement. This was driven by the timely launch and strong execution of structural optimizations, as well as by the faster than anticipated rebound of business volumes during the pandemic. EBITA in the cochlear implant segment was below target despite structural cost improvements. This was primarily due to lower than anticipated demand following the voluntary field corrective action at the end of the 2019/20 financial year and the slower rebound of the cochlear implant segment due to COVID-19 related restrictions on hospital capacity.

As a consequence, and mainly driven by the stronger than anticipated hearing instrument performance, Group EBITA and EPS targets were overachieved on an aggregated basis for the full year at 137.1% and 138.4% respectively. The assessment of these targets was undertaken based on the adjusted metrics as disclosed in the financial review of this Annual Report. Driven by the strong business performance for most of the financial year and the strong collection of accounts receivables, realized FCF was a multiple of the target.

ESG targets for the second half of the financial year were defined around seven categories, with energy and climate, as well as employee engagement, set as a target for all Management Board members. Additionally, members each had a selection of targets set depending on their role and responsibilities. These included product quality and customer satisfaction, product reliability, environmentally friendly packaging, business ethics and legal compliance, as well as human rights and responsible supply chain. On average, ESG targets for management were slightly under-achieved at 90.1%.

Individual qualitative targets for management were, on average, slightly overachieved at 110.5%.

As disclosed earlier in this report, the VCC achievement for the 2020/21 financial year is capped at 100.0%. Therefore the overall target achievement for the CEO is 100.0% (2019/20: 105.2%) and between 77.6% and 100.0% (2019/20: 75.7% - 106.9%) for the other members of the Management Board. The average variable cash payout to Management Board members, including the CEO, was 96.8%, whereas the equivalent average overall payout ratio for the previous year was 115.5%.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to COVID–19, the VCC payout to members of the Management Board for the 2020/21 financial year is capped at target (100% versus 200% normally).

The highest total compensation for a member of the Management Board in the 2020/21 financial year was paid to Arnd Kaldowski, CEO.

The following tables show the compensation of the CEO and of the other members of the Management Board for the 2020/21 financial year (9 members) and for the 2019/20 financial year (9 members).

Management Board compensation

in CHF									**2020/21**
	Fixed base salary	Variable compensation [1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs [2]	Value of options [3]	Total compensation	Employer's social security contribution
Arnd Kaldowski, CEO	709,615	800,000	69,515	111,231	1,690,361	609,375	1,015,625	3,315,361	125,508
Other members of the MB	2,817,903	1,459,448	291,180	486,524	5,055,056	1,449,500	1,449,500	7,954,056	908,102
Total	**3,527,519**	**2,259,448**	**360,695**	**597,754**	**6,745,417**	**2,058,875**	**2,465,125**	**11,269,417**	**1,033,610**

The compensation shown in the table above is gross and based on the accrual principle.

1) The variable compensation will be paid out only when the Group's audited financial statements for the financial year have been publicly disclosed by the Group in its consolidated financial statements.

2) Fair value per PSU at grant date CHF 198.67. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior to the vesting in June 2024 and the PSUs are blocked after vesting to arrive at the total mandatory restriction period of five years from grant date.

3) Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" (including the impact of the restriction period based on a "Black-Scholes Model") of CHF 39.90. The options are blocked after vesting to arrive at the total mandatory restriction period of five years.

in CHF									2019/20
	Fixed base salary	Variable compensation [1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs [2]	Value of options [3]	Total compensation	Employer's social security contribution
Arnd Kaldowski, CEO	900,000	986,560	74,944	109,338	2,070,841	562,500	937,500	3,570,841	110,466
Other members of the MB	3,138,129	2,147,971	356,124	515,913	6,158,137	1,649,000	1,649,000	9,456,137	888,687
Total	**4,038,129**	**3,134,531**	**431,068**	**625,251**	**8,228,978**	**2,211,500**	**2,586,500**	**13,026,978**	**999,153**

The compensation shown in the table above is gross and based on the accrual principle.

1) The variable compensation will be paid out only when the Group's audited financial statements for the financial year have been publicly disclosed by the Group in its consolidated financial statements.

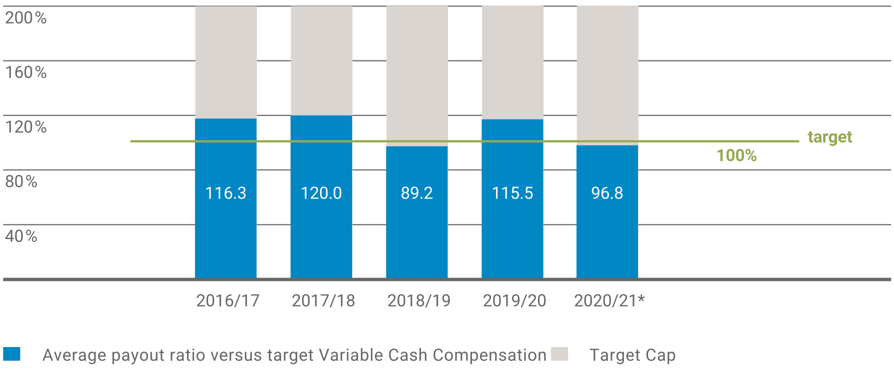
2) Fair value per PSU at grant date CHF 266.80. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior to the vesting in June 2023 and the PSUs are blocked after vesting to arrive at the total mandatory holding period of five years from grant date.

3) Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" (including the impact of the holding period based on a "Black-Scholes Model") of CHF 33.34. The options are blocked after vesting to arrive at the total mandatory holding period of five years.

Explanatory comments to the compensation tables:

- The total compensation of CHF 11.3 million for the 2020/21 financial year is below the total of CHF 13.0 million for the previous year.
- The fixed compensation is reduced compared to the previous year given the COVID–19 related compensation measures.
- Furthermore, the COVID–19 related capping of the VCC at 100% contributed to the reduction.
- The total EEAP grant value awarded increased as a result of a combination of selective increases.

5.2.2 Historical variable cash compensation for the members of the Management Board over the last five years



* VCC FY 2020/21 capped at target due to Corona

The above chart illustrates that the design of the VCC is effective: in line with Sonova's ambitious target–setting, substantial progress needs to be made to reach the target (100%).

5.2.3 Approved versus actual total compensation for the members of the Management Board

The actual total compensation for the Management Board for the 2020/21 financial year was CHF 11.3 million. This figure is below the maximum aggregate compensation amount of CHF 15.3 million approved at the 2019 AGM for the 2020/21 financial year.

The approved compensation for EEAP applies fair value at grant, which is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement for PSUs. The actual number of shares allocated for each PSU will depend on the achievement of pre-determined performance conditions, and ranges from 0 to 2 shares per PSU. Actual achievement will be disclosed upon vesting in each respective financial year.

Additional information to support the shareholder votes on compensation can be found in the invitation to the 2021 AGM.

5.2.4 Executive Equity Award Plan performance outcomes 2020/21

Options

The vesting of the options is subject to a pre-defined ROCE target. As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to COVID-19, it was anticipated that the ROCE target would possibly need to be suspended for the time being. However, given the strong management of profitability, along with the efficiency of employed capital during the outbreak of COVID-19, the Board decided to not apply the suspension. In the 2020/21 financial year, the ROCE target was exceeded. Since there is no provision for over-achievement in the EEAP, the vesting of the options is capped at target, namely at 100%.

Performance Share Units

The PSUs vest based on relative TSR measured against a pre-defined basket of peers. The number of shares allocated for each vested PSU between the 20th and 80th percentile is calculated by linear interpolation within a range of 0% to 200%. The PSUs awarded under the EEAP 2018 vest in June 2021 based on the performance period ending on March 31, 2021

The actual TSR was 46.5%, which corresponds to a 77.0% percentile rank relative to the peer group, and results in a 189.9% vesting.

5.2.5 Other components

As reported in the 2017/18 compensation report, upon his hiring, the CEO was awarded a one-time, non-recurring performance option replacement award for forfeited compensation entitlements granted by his former employer, with a fair value at grant of CHF 1,000,000.

The COVID–19 crisis caused the market to shrink significantly, thereby impairing Sonova's growth strategy during an interim period. The Board of Directors therefore reviewed the terms of the option grant as follows: The EPS performance target remains as originally set, namely to grow EPS to CHF 9.34 (8% vesting) and CHF 11.21 (12% vesting) per share.

The performance period will be extended to April 1, 2025. The CEO may elect to have the options vest at the original date of April 1, 2023 or in the interim year on April 1, 2024. The expiry date of the options (September 27, 2027) remains unchanged.

As a result of this potential change of the performance period, the fair value of the options granted (initially CHF 1,000,000) does not increase.

5.2.6 Other compensation, loans and credits for current and former members of the Management Board and related parties

No other compensation was paid to current or former members of the Management Board beyond the total compensation disclosed in the tables above.

No payments were made to individuals who are closely related to any current or former member of the Management Board.

No loans were granted by Sonova or any other Group company to current or former members of the Management Board in the 2020/21 financial year, and no such loans were outstanding as of March 31, 2021. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of current or former members of the Management Board.

6. Share ownership information

6.1 Shareholdings of members of the Board of Directors

The tables in this section are audited by the external auditor.

The following table shows the equity of the individual members of the Board of Directors and persons closely linked to them.

				31.03.2021				31.03.2020
	Shares	Restricted Shares [1]	RSUs	Options	Shares	Restricted Shares [2]	RSUs	Options
Robert F. Spoerry, Chair	41,227	14,293			37,656	15,818		
Beat Hess, Vice-Chair	6,691	5,353			5,047	6,192		
Lynn Dorsey Bleil, Member	30	5,353				4,622		
Lukas Braunschweiler, Member	25,007	2,488	2,183	96,016	22,686	1,757	4,328	123,189
Stacy Enxing Seng, Member	3,231	5,353			1,609	6,192		
Michael Jacobi, Member		5,353			2,000	6,192		
Ronald van der Vis, Member	3,231	5,353			1,609	6,192		
Jinlong Wang, Member	4,846	5,353			3,214	6,192		
Adrian Widmer, Member [3]		731						
Total	**84,263**	**49,630**	**2,183**	**96,016**	**73,821**	**53,157**	**4,328**	**123,189**

1) These shares are subject to a restriction period which varies from June 1, 2021 to June 1, 2026 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
3) New member of the Board of Directors since June 2020.
For further details see also Note 7.4 in the consolidated financial statements.

The shareholding requirements set by the share ownership guidelines are entirely met by all members of the Board of Directors.

6.2 Shareholdings of members of the Management Board

The tables in this section are audited by the external auditor.

The following tables show the equity of individual members of the Management Board and persons closely linked to them.

				31.03.2021				31.03.2020
	Shares [1]	PSUs	RSUs	Options	Shares [1]	PSUs	RSUs	Options
Arnd Kaldowski	6,792	11,581		173,017	6,749	8,514		147,563
Hartwig Grevener	9,420	1,854	596	20,210	8,324	3,658	1,947	43,201
Ludger Althoff	919	1,659	792	17,448	550	708	1,056	12,712
Claudio Bartesaghi	681	2,865	73	22,401 [2]	539	2,020	211	18,191 [2]
Vicky Carr-Brendel	237	1,617	711	16,413 [3]		674	947	11,714 [3]
Claude Diversi	1,057	4,831	881	27,272	1,000	3,699	1,896	32,141
Christophe Fond	4,236	5,005	933	36,682	4,048	3,823	1,541	36,812
Martin Grieder	1,006	4,765	912	51,812	3,033	3,658	1,947	51,734
Andi Vonlanthen	17,174	4,831	912	65,727	18,276	3,699	1,947	68,775
Total	**41,522**	**39,008**	**5,810**	**430,982**	**42,519**	**30,453**	**11,492**	**422,843**

1) Shares are dividend entitled with full voting rights.
2) includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
3) SARs were granted instead of options (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares). For further details see also Note 7.4 in the consolidated financial statements.

The shareholding requirements set by the share ownership guidelines are entirely met by all members of the Management Board.

The following table shows the shareholding requirements relative to the fixed base salary and the indicative actual shareholdings.

	Base salary	Share requirements [1]	Actual shares [2]	Fulfillment of share ownership guidelines	Share ownership ratio to base salary
	in CHF	in CHF	in CHF	in %	ratio
Arnd Kaldowski, CEO	900,000	1,000,000	1,700,717	170	1.9
Other members of the MB [3]	381,350	200,000	1,087,049	544	2.9

1) Share requirements to be achieved for the CEO as of December 31, 2017 and for all other members of the MB after 41 months.
2) Calculated with Sonova closing share price of March 31, 2021.
3) Average of other members of the MB with shareholding requirements.
The calculation of fulfillment and the ratio to base salary of the share ownership shown above are included for illustration purposes only.

The following table shows a detailed breakdown of the outstanding options of the members of the Management Board.

								31.03.2021
	Options EEAP 21 [1]	Options EEAP 20 [2]	Options EEAP 19 [3]	Options EEAP 18 [4]	Options EEAP 17 [5]	Options EEAP 16 [6]	Options EEAP 15 [7]	Total options
Arnd Kaldowski	25,454	28,119	32,901	86,543 [8]				173,017
Hartwig Grevener		1,649	4,211	5,297	6,474	2,579		20,210
Ludger Althoff	4,736	5,668	7,044					17,448
Claudio Bartesaghi	4,210	4,649	4,881	4,984	2,148 [9]	1,529		22,401
Vicky Carr-Brendel	4,699 [10]	5,398 [10]	6,316 [10]					16,413 [10]
Claude Diversi	5,639	6,748	6,461	5,297	3,127			27,272
Christophe Fond	5,889	7,048	8,996	8,127	6,622			36,682
Martin Grieder	5,513	6,598	8,422	10,594	12,948	7,737		51,812
Andi Vonlanthen	5,639	6,748	8,614	10,594	12,948	10,315	10,869	65,727
Total	**61,779**	**72,625**	**87,846**	**131,436**	**44,267**	**22,160**	**10,869**	**430,982**

1) Exercise price CHF 218.70, vesting period 1.2.2021–1.6.2025 whereas one tranche being vested each year, end of restriction period 31.1.2026, exercise period 1.2.2026–31.1.2031.
2) Exercise price CHF 241.80, vesting period 1.2.2020–1.6.2024 whereas one tranche being vested each year, end of restriction period 31.1.2025, exercise period 1.2.2025–31.1.2030.
3) Exercise price CHF 182.40, vesting period 1.2.2019–1.6.2023 whereas one tranche being vested each year, exercise period 1.6.2020–31.1.2029.
4) Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.
5) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
6) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
7) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
8) Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.
9) SARs EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
10) SARs were granted instead of options (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

								31.3.2020
	Options EEAP 20 [1]	Options EEAP 19 [2]	Options EEAP 18 [3]	Options EEAP 17 [4]	Options EEAP 16 [5]	Options EEAP 15 [6]	Options EEAP 14 [7]	Total options
Arnd Kaldowski	28,119	32,901	86,543 [10]					147,563
Hartwig Grevener	6,598	8,422	10,594	9,711	5,158	2,718		43,201
Ludger Althoff [8]	5,668	7,044						12,712
Claudio Bartesaghi	4,649	4,881	4,984	2,148 [11]	1,529			18,191
Vicky Carr-Brendel [9]	5,398 [12]	6,316 [12]						11,714 [12]
Claude Diversi	6,748	8,614	7,946	6,254	2,579			32,141
Christophe Fond	7,048	8,996	10,835	9,933				36,812
Martin Grieder	6,598	8,422	10,594	12,948	7,737	5,435		51,734
Andi Vonlanthen	6,748	8,614	10,594	12,948	10,315	10,869	8,687	68,775
Total	**77,574**	**94,210**	**142,090**	**53,942**	**27,318**	**19,022**	**8,687**	**422,843**

1) Exercise price CHF 241.80, vesting period 1.2.2020–1.6.2024 whereas one tranche being vested each year, end of holding period 31.1.2025, exercise period 1.2.2025–31.1.2030.
2) Exercise price CHF 182.40, vesting period 1.2.2019–1.6.2023 whereas one tranche being vested each year, exercise period 1.6.2020–31.1.2029.
3) Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.
4) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
5) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
6) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
7) Exercise price CHF 124.60, vesting period 1.2.2014–1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015–31.1.2021.
8) Member of the Management Board since April 1, 2019.
9) Member of the Management Board since April 1, 2019.
10) Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.
11) SARs EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
12) SARs were granted instead of options (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

Glossary

AC Audit Committee
AGM Annual General Shareholders' Meeting
AHV Old Age and Survivors' Insurance
ALV Unemployment Insurance
Articles of Association Articles of Association of Sonova Holding AG
ASP Average Sales Price
BoD Board of Directors
CAGR Compound Annual Growth Rate
CEO Chief Executive Officer
CFO Chief Financial Officer
CHF Swiss Francs
EBITA Earnings Before Interest, Taxes and Amortization
EEAP Executive Equity Award Plan
EPS Earnings Per Share
ESG Environmental, Social and Governance
FCF Free Cash Flow
GVP Group Vice President
HRM Human Resource Management
KPIs Key Performance Indicators
MB Management Board
n.a. Not applicable
NCC Nomination and Compensation Committee
OPEX Operating Expenses
PSU Performance Share Unit
ROCE Return on Capital Employed
RSU Restricted Share Unit
rTSR relative Total Shareholder Return
SARs Stock Appreciation Rights
SLI Swiss Leaders Index
SMIM Swiss Market Index Mid
VCC Variable Cash Compensation

Building a better working world

Report of the statutory auditor to the General Meeting of Sonova Holding AG

Statutory auditor's report on the compensation report

We have audited the compensation report of Sonova Holding AG for the year ended 31 March 2021. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables of section 5.1, 5.2, 6.1 and 6.2 excluding tables: 5.1.1 and 5.2.2.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 March 2021 of Sonova Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Other matter

The remuneration report of Sonova Holding AG for the year ended 31 March 2020 was audited by another statutory auditor who expressed an unmodified opinion on that remuneration report on 14 May 2020.

Zurich, 17 May 2021

Ernst & Young Ltd

Martin Mattes	Pascal Solèr
Licensed audit expert	Licensed audit expert
(Auditor in charge)	